

FOND DU LAC COUNTY, WISCONSIN

December 31, 2010

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Fond du Lac County

July 22, 2011

To the Honorable County Board of Supervisors and the Citizens of Fond du Lac County, WI:

Wisconsin State Statute and Administrative Rule Tax 16 require counties with populations of 25,000 or more to submit audited financial statements by July 31, 2011. Debt issuance covenants also require the County to prepare financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards (GASB). The audited financial statements must be submitted to any nationally recognized municipal securities information repository by 270 days after the end of the fiscal year. Major federal and state programs impose additional audit requirements. Pursuant to the above requirements, we hereby issue the comprehensive annual financial report of Fond du Lac County for the fiscal year ended December 31, 2010.

This report consists of management's representations concerning the finances for Fond du Lac County, Wisconsin. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of Fond du Lac County, Wisconsin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Fond du Lac County, Wisconsin financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Fond du Lac County, Wisconsin comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is accurate, complete and reliable in all material respects.

The Fond du Lac County, Wisconsin financial statements have been audited by Schenck, S.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Fond du Lac County, Wisconsin for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Fond du Lac County, Wisconsin financial statements for the fiscal year ended December 31, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented immediately after the introductory section of this report.

The independent audit of the financial statements of Fond du Lac County, Wisconsin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are issued separately as the Federal Awards and State Financial Assistance Report for Fond du Lac County, Wisconsin and are available through the Finance Department.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The Fond du Lac County, Wisconsin MD&A can be found immediately following the independent auditor's report.

Profile of the Government

Fond du Lac County, Wisconsin incorporated in 1839, is located in the east central part of the state, at the foot of Lake Winnebago. Fond du Lac County, Wisconsin occupies a land area of 725 square miles and serves a population of approximately 102,633. Fond du Lac County, Wisconsin is empowered to levy a property tax on both real and personal properties located within its boundaries.

Fond du Lac County, Wisconsin operates under a County Board – County Executive form of government. The County Board exercises legislative control and the County Executive exercises administrative control over all County operations. Beginning in April 2008, the Board was reduced to eighteen members elected by district to two-year terms. The County Executive is also non-partisan and is elected to a four-year term. The County Board of Supervisors is responsible, among other things, for passing resolutions, adopting and amending the budget, and approving appointments to committees. The County Executive is responsible for carrying out the policies of the Board, for overseeing the day-to-day operations of the County, and for appointment of heads to non-elected departments.

Fond du Lac County, Wisconsin provides a full range of services contemplated by statute or charter. These services include law enforcement protection, health and human services programs, construction and maintenance of highways, recreational and educational activities, planning and conservation activities, health care facilities, support for the state's judicial system, and general administrative services.

The annual budget serves as the foundation for Fond du Lac County, Wisconsin financial planning and control. All County departments are required to submit subsequent year budget requests annually in September to the County Executive. These requests are the starting point for developing the proposed budget presented by the County Executive to the County Board in October each year for their review and adoption. The County Board is required to hold public hearings on the proposed budget and to adopt a final budget by late November each year. The budget is adopted at the fund/department level (e.g. Dept. of Social Services, Sheriff), but is prepared at the program/activity and line item detail level for review. Transfers of appropriations within a fund/department up to \$1,500 or ten percent of the aggregate approved budget, whichever is less, may be authorized by action of the Finance, Personnel and Economic Development Committee. Any other transfer or additional appropriation must be approved by the full County Board.

Budget to actual comparisons are provided in this report for the general fund and major special revenue funds. This comparison is presented on pages 24–27 as part of the basic financial statements. A more detailed budget to actual comparison for the general fund is presented in the supplemental information section of this report on pages 56–68.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Fond du Lac County, Wisconsin operates.

Local Economy

As has occurred nationally, the economy in Fond du Lac County continued to strengthen in 2010. There were no announcements of any significant plant closing. Job growth did occur in large and small numbers in several businesses lowering the County's unemployment rate.

Mercury Marine remains the second largest employer in the County based on decisions that were made in 2009. Mercury Marine officials made the decision to consolidate Stillwater, Oklahoma operations in Fond du Lac and as a result planned to transfer approximately 250 jobs. Fond du Lac County played a significant role in that decision in that the County agreed to loan Mercury Marine \$50M over a period of 12 years amortized in the last ten years at an interest rate of 2%. The loan is performance based therefore

Mercury is able to earn credits toward repayment of the loan based on 1,526 employees in Fond du Lac County. If Mercury Marine maintains that level, they will annually receive a credit of \$500 per employee. For any number above that up to 2,900 employees, Mercury Marine will annually receive \$1,000 per employee as a credit toward repayment of the loan. Estimated employment at the Mercury Marine facility in Fond du Lac County is 2,300 as of this writing. In 2010, the Company made a decision to bring 200 additional jobs to Fond du Lac that they had originally planned to transfer to a manufacturing plant at another location. In order to have the space for the transfer, they added 30,000 square feet to the Fond du Lac manufacturing facility. In 2011, the company is completing the transferring of the manufacturing equipment from Stillwater as planned, and will now begin hiring workers as they begin stern drive production at the Fond du Lac facility by the end of this year. Fond du Lac County chose to pay for the credits and interest subsidy above 2% through the County option .05% sales tax. The sales tax revenue for Fond du Lac County has been averaging \$500,000 to \$550,000 per month since it began in April, 2010.

Our largest employer, Agnesian Healthcare, continues to construct new facilities thereby moderately increasing their employment and bringing more medical professionals to the County.

Wausau-Everest, a southeast Wisconsin Airport Equipment Manufacturer expressed interest in constructing a research and development facility and a future assembly facility next to the Fond du Lac County Airport. The County Board approved the development of an aeronautical industrial park in the northeast quadrant of the Airport. The needed land was purchased and development of the industrial park began in early summer 2008. Final paving will be completed in 2011. Wausau-Everest began construction of the new facility in early fall 2008 and began operations at the new facility in February 2009. The R & D facility employs 16 to 25 people depending on workload. The company plans a 70 foot addition to the plant later this year. They continue to receive orders for new equipment that will service some of the country's largest airports. Due to the many needed approvals from the Federal Aviation Administration and local government, this development has been a very challenging process, however the County has enjoyed very good cooperation from its partners in this venture.

In early 2009, Fond du Lac County sold the old Rolling Meadows Nursing Home facility for \$360,000. The purchaser ultimately sold it to a new developer who intends to open a hotel/conference center on that site using the existing facilities but adding a fourth floor and a 30,000 square foot conference center with dining capabilities of up to 600 people. Construction will also begin soon for a small attached water park. A larger facility has been needed in Fond du Lac County to accommodate events and meetings that we now lose to other cities. Completion is expected to occur by May, 2012. Fond du Lac County also sold 1.12 acres of land to this development company in order for them to provide adequate parking space for their facility.

The largest business expansion in Fond du Lac County, the development of the Rosendale Dairy continued in 2010 to accommodate a herd of 8,400 animal units. This large herd dairy operation has an estimated construction cost of over \$50 million and while numbers have not been released regarding employment, an operation of this size requires a large number of full time and part time workers. There has been a significant positive economic impact on the farms and businesses that supply the feed and other needed items. The milk produced at this facility will help supply the cheese producing operations in Fond du Lac County thereby saving them the cost of trucking over long distances and keeping those jobs in this area.

The City of Fond du Lac, in partnership with Keller Construction and the Fond du Lac County Economic Development Corporation, constructed a 60,000 square foot spec manufacturing building in the City's industrial park hoping to attract a business or businesses that need new facilities quickly in order to expand operations. Under a similar arrangement between Keller, the Fond du Lac County Economic Corporation and the Village of North Fond du Lac, a 60,000 square foot spec building was constructed and sold to a local business who expanded operations and employment into that facility

The economic development professionals in the county continue to expect modest plant expansions within the next 12 months resulting in an increase of jobs within the county. Plans are not yet firm enough for announcements to be made at this time. Overall, there is optimism that the County's economy will continue to strengthen as we move into 2012.

Fond du Lac County has appropriated \$500,000 in 2010 and \$1.0 Million in 2011 of sales tax revenue to the Fond du Lac County Economic Development Corporation to supplement and enhance their revolving loan fund providing them with more flexibility to assist county businesses with expansion and adding employment.

Long-Term Financial Planning

In May 2006, the County began receiving prisoners from other counties and the State of Wisconsin. Fond du Lac County now houses about 82 prisoners each day in its jail from either the State prison system or other counties in the state. The result was revenue of over \$1,800,000 in 2010. Ultimately due to Fond du Lac County's jail needs increasing each year, the number of available beds for lease to other counties was expected to decline annually, but so far the Sheriff has maintained a high level since 2007.

As part of the budget process and long range planning, the County Executive employs a five year capital improvement plan that is approved by the County Board. The plan identifies major capital projects and the methods to finance them.

Several highway projects are part of the capital improvement plan, including the railroad grade separation and bridge replacement on Pioneer Road, which will positively impact the local economy. It is a joint project with the City of Fond du Lac. \$6,000,000 in federal dollars are expected to fund approximately 40 percent of the cost. Some state funds will also be available with the balance of \$7,500,000 to be split evenly with the City of Fond du Lac. Engineering of the project began in 2008 and bridge construction began in July and will be completed about November 1, 2011. The railroad underpass is now planned for construction from June 2012 through August 2013.

A significant positive impact on the County budget beginning in 2009 is the State Shared Utility Revenue resulting from the construction and operation of almost 200 wind turbines within Fond du Lac County. When operational, the wind turbines will generate approximately \$642,000 annually of new revenue for the County. All currently planned wind turbines were operational by the end of 2008. Changes in the state's political climate have stopped any further expansion.

Cash management

Cash temporarily idle during the year was invested in certificates of deposit, demand deposits and the State of Wisconsin Local Government Investment Pool. The County has adopted an investment policy which establishes guidelines for investments, while insuring that investment assets are adequately safeguarded.

2010 in Review

The financial position of Fond du Lac County, Wisconsin is sound as of the end of fiscal year 2010. One measure of our financial stability is the amount of undesignated general fund at year end. As of December 31, 2010, the undesignated general fund balance was \$5,214,050, an increase of \$350,291 from the prior year end. Our financial advisors recommend that we carry from 10-20 percent of the subsequent year's general funds operating budget as undesignated general fund balance. For Fond du Lac County, Wisconsin, that percentage is 11 percent, if the \$30,000,000 appropriation to the Fond du Lac County Economic Development Corporation for the Mercury Marine loan is not included. Outstanding debt at the end of 2010 was \$29,075,000 for capital projects, plus \$2,720,000 remaining on the funds originally borrowed in 2002 to pay off the unfunded pension liability to the Wisconsin Retirement System. That brings Fond du Lac County, Wisconsin's total outstanding general obligation debt at the end of 2010 including the \$50,000,000 Mercury Marine loan to \$81,795,000, which is 23.3 percent of our legal debt limit set by State Statute.

The majority of departments, large and small alike, again returned 2010 budget surpluses to the general fund. Each department's diligent efforts in controlling costs and increasing revenues, wherever possible, are contributing factors to Fond du Lac County, Wisconsin's good financial position. Some county positions have been eliminated, some have been left vacant, and some have been filled on a delayed basis. A voluntary unpaid leave policy was started in 2001 and has been continued, generating approximately \$19,000 of salary/wage and related fringe savings, net of unemployment compensation, in

2010. This savings was generated even after most non 24-7 staff was required to take four unpaid furlough days in 2010.

Two large health and human services departments are responsible for returning significant budget surpluses to the general fund: \$1,053,366 from the Department of Community Programs while the Department of Social Services returned \$1,622,370.

The Sheriff's Department and Jail combined returned a \$648,989 budget surplus to the general fund. In addition, the Health Department, Home Health and Personal Care Program combined, returned a \$121,995 budget surplus to the general fund. These budget surpluses resulted from a combination of some increased revenue sources, while controlling costs to keep them in line with the funding available.

Health Insurance

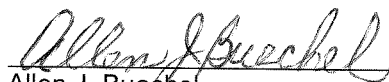
Health insurance costs continue to have the most significant negative impact on our budget. In 2011, the employee health insurance premium co-pay rose to 15 percent but if the employee has a health risk assessment, it is decreased to 12 percent. In 2011, the premium increase was 17 percent.

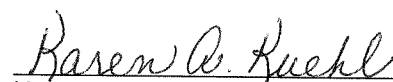
In 1999, I publicly stated in my budget message that the increased cost of medical care, and the resulting impact on health insurance, if left unchecked, will undermine every local government's ability to provide services to the people they represent. And that, in fact, is what has happened. Fond du Lac County Administrative Staff has worked hard with insurance professionals to find ways to reduce premium costs through employee awareness and wellness programs, preventive health education, benefit restructuring, and funding. Staff continues to search for new ways to reduce the cost of medical care, such as the Virtual Clinic. In conjunction with the wellness initiatives, the Asheville Project was implemented in the fall of 2007. It is a medical model that monitors and coaches people with diabetes to achieve better health and quality of life. Beginning in the fall of 2009, disease management programs on hypertension and cholesterol were available to employees.

The County's wellness efforts seem to be having a positive impact because the projected rate increase for 2012 is no more than 5 percent.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and the fiscal services staff of all County departments. Credit must also be given to the Fond du Lac County, Wisconsin Board of Supervisors and the Finance, Personnel and Economic Development Committee for their unfailing support for maintaining the highest standards of professionalism in the management of Fond du Lac County, Wisconsin's finances.


Allen J. Buechel
County Executive


Karen A. Kuehl, CPA
Finance Director

OFFICIALS OF THE COUNTY OF FOND DU LAC

County Executive ----- Allen J. Buechel

COUNTY BOARD OF SUPERVISORS 2010-2012

Chairperson -----Martin F. Farrell
Vice-Chairperson-----Herbert G. Ottery
Second Vice-----Judy Goldsmith

FINANCE, PERSONNEL AND ECONOMIC DEVELOPMENT COMMITTEE

Brenda A. Schneider, Chair
Thomas E. Dornbrook, Vice-Chair
Judy Goldsmith
Herbert G. Ottery
Martin F. Farrell, County Board Chair

HIGHWAY, AIRPORT AND FACILITIES COMMITTEE

Joseph W. Koch, Chair
Robert M. Fox, Vice-Chair
Karen Madigan
John E. Muentner, Sr.
John G. Zorn

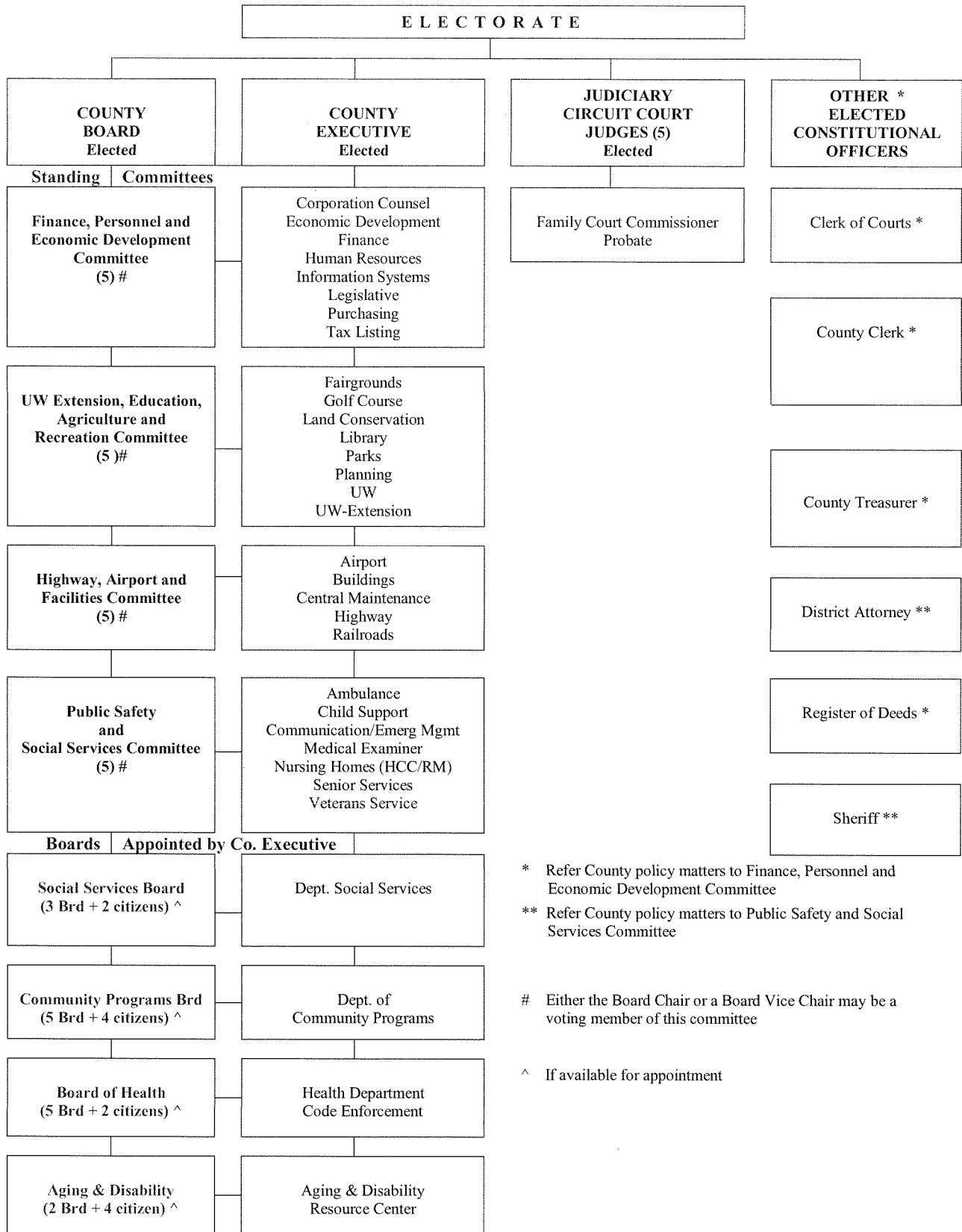
PUBLIC SAFETY AND SOCIAL SERVICES COMMITTEE

Melvin E. Heller, Chair
Donald O. Skog, Vice-Chair
Judy Goldsmith
Paul T. Levandowski
Richard R. Wetzel

UW-EXTENSION EDUCATION, AGRICULTURE AND RECREATION COMMITTEE

Sherry L. Behnke, Chair
James D. Kiser, Vice-Chair
Steven A. Abel
Herbert G. Ottery
Shirley M. Ries

**ORGANIZATIONAL CHART - 18 COUNTY BOARD SUPERVISORS
FOND DU LAC COUNTY, WISCONSIN**



* Refer County policy matters to Finance, Personnel and Economic Development Committee

** Refer County policy matters to Public Safety and Social Services Committee

Either the Board Chair or a Board Vice Chair may be a voting member of this committee

^ If available for appointment

FOND DU LAC COUNTY
FINANCE DEPARTMENT PERSONNEL

Director of Administration Erin E. Gerred
Finance Director Karen A. Kuehl, CPA
Accounting Services Coordinator..... Dorothy A. Soda
Payroll Coordinator Ann C. Lallier
Account Specialist Susan J. Bruins
Account Clerk II Cecelia A. Achterberg